

Message Text

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SUBJ: TEXTILE MACHINERY AND EQUIPMENT TRADE MISSION: COLOMBIAN
MARKET CONDITIONS

REF: MEDELLIN 0158

FOR: H. LINDOW, USDOC ADVANCE OFFICER FOR SUBJECT MISSION

H. SOCKS, SAD/COMMERCE

SUMMARY: TRANSMITTING INFORMATION FOR BRIEFING TRADE MISSION
MEMBERS ON COLOMBIAN VIEWS RE THE DOMESTIC MARKET FOR COLOMBIAN
TEXTILES AND EXPORT PROSPECTS FOR COLOMBIAN TEXTILES, BOTH IN
THE SHORT AND LONG TERM. IMPLICATIONS FOR TEXTILE MACHINERY
AND EQUIPMENT SALES. US COMPETITIVENESS AND THE FACTORS OF
PRICES, DELIVERY SCHEDULES, AND FINANCING. END SUMMARY.

1. MARKET INFORMATION FOR MISSION MEMBERS - THE CONSUL
AND COMMERCIAL ASSISTANT HAVE MADE A RECENT INFORMAL SURVEY
OF 25 OF THE LARGEST MEDELLIN-BASED TEXTILE COMPANIES IN ORDER TO
OBTAIN MARKET INFORMATION WHICH MIGHT BE OF USE IN ADVANCE BRIEFING
OF MEMBERS OF THE FORTHCOMING TEXTILE MACHINERY AND EQUIPMENT TRADE
MISSION.

2. IN THE INTERESTS OF SHORTENNING THIS CABLE, THE CONSULATE WOULD
POINT OUT THAT TWO MESSAGES FROM LAST YEAR REMAIN ESSENTIALLY VALID
AND SHOULD BE REVIEWED FOR BRIEFING THE MISSION: SPECIFICALLY,
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MEDELLIN S A-08 OF MARCH 30, 1973 AND STATE 08004 (FROM COMMERCE)

OF MAY 3, 1973. THE CONSULATE S LATEST SOUNDINGS GIVE THE FOLLOWING GENERAL MARKET OBSERVATIONS.

3. DOMESTIC MARKET - THERE IS A NOTICEABLE PESSIMISM OR CAUTION AMONG MOST COMPANIES CONCERNING THE SHORT-TERM DOMESTIC COLOMBIAN MARKET FOR TEXTILES. DEMAND HAS LAGGED THUS FAR IN 1974. THE SOFT DOMESTIC MARKET IS ATTRIBUTED BY MOST INFORMANTS TO THE SHARP PRICE RISES OF TEXTILE PRODUCTS AND TO THE RELATED FACTOR THAT INCOMES GENERALLY ARE LAGGING BEHIND COLOMBIA S CURRENT 25-30 PERCENT ANNUAL INFLATION RATE. SOME COMPANIES BELIEVE LAGGING SALES DURING THE FIRST FIVE MONTHS OF 1974 WERE PARTIALLY THE RESULT OF UNCERTAINTIES SURROUNDING THE APRIL, 1974 NATIONAL ELECTIONS. THE LATTER SEE DOMESTIC SALES REBOUNDING IN THE LAST HALF OF 1974. WHILE ALL COMPANIES EXPRESS LONG-TERM OPTIMISM OVER DOMESTIC DEMAND FOR TEXTILE PRODUCTS, SEVERAL INDICATED THAT THEY ARE GOING SLOW IN EXPANSION PLANS BASED ON THE DOMESTIC MARKET FOR THE TIME-BEING.

4. INTERNATIONAL MARKET - THERE EXISTS A RATHER MARKED DIFFERENCE OF OPINION AMONG LARGER COLOMBIAN TEXTILE FIRMS CONCERNING COLOMBIA S POTENTIAL IN INTERNATIONAL TEXTILE MARKETS, NOTWITHSTANDING THE FACT THAT COLOMBIAN TEXTILE EXPORTS HAVE SURGED DRAMATICALLY OVER THE PAST TWO YEARS. SOME COMPANIES, PARTICULARLY FABRICATO, COLOMBIA S SECOND LARGEST TEXTILE COMPANY, BELIEVE THE INTERNATIONAL MARKET OUTLOOK IS EXCELLENT,

AND FABRICATO HAS MAJOR EXPANSION PLANS UNDERWAY, BASED LARGELY ON EXPORT PROSPECTS, ESPECIALLY FOR YARN. TEJCONDOR, COLOMBIA S THIRD LARGEST TEXTILE FIRM, IS ALSO BASICALLY OPTIMISTIC AND IS IN THE PROCESS OF EXPANDING YARN PRODUCTION FOR EXPORT, BUT ON A LESS AMBITIOUS SCALE THAN FABRICATO. COLOMBIA S LARGEST TEXTILE FIRM, COLTEJER, SEES WEAKNESSES IN INTERNATIONAL DEMAND FOR TEXTILE PRODUCTS AND FEARS UNDERCUTTING COMPETITION FROM ASIA, PARTICULARLY FROM JAPAN. COLTEJER THUS HAS NO SHORT-TERM MAJOR EXPANSION PLANS AND IS INSTEAD CONCENTRATING ON MODERNIZING AND REPLACING EXISTING EQUIPMENT OVER THE NEXT TWO YEARS. COLTEJER IS NEVERTHELESS PROCEEDING ACTIVELY WITH PLANS TO ESTABLISH AN ACRYLICS PLANT IN COLOMBIA THROUGH ITS SUBSIDIARY POLIMEROS (JOINTLY OWNED BY COLTEJER AND UNITED MERCHANTS). A DECISION WILL BE REACHED IN THE NEXT TWO MONTHS AS TO WHETHER THE ACRYLIC PLANT CONTRACT WILL BE UNCLASSIFIED

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WITH DUPONT OR A JAPANESE FIRM. AT STAKE IS MACHINERY AND PLANT EQUIPMENT IMPORTS OF US *13 MILLION.

5. LONG-TERM MARKET VIEWS - DESPITE CURRENT WEAKNESSES IN THE DOMESTIC COLOMBIAN MARKET AND MIXED VIEWS OVER INTERNATIONAL PROSPECTS, THE COLOMBIAN TEXTILE INDUSTRY VIEWS THE LONG-TERM FUTURE WITH GREAT CONFIDENCE AND EXPECTS COLOMBIA TO BE AN INCREASINGLY IMPORTANT TEXTILE MANUFACTURER OVER THE NEXT TWO OR

THREE DECADES. THEREFORE, IN ADDITION TO SEEKING BUSINESS FROM THOSE COLOMBIAN COMPANIES PLANNING EXPANSION IN THE SHORT-TERM, MISSION MEMBERS SHOULD WORK ACTIVELY TO GET IN ON THE GROUND FLOOR IN COMPANY PLANNING FOR EXPANSIONS IN THE LONG-TERM. GIVEN DELAYED DELIVERY SCHEDULES (DISCUSSED BELOW) IN MANY LINES, LONG-TERM ARRANGEMENTS MAY OFFER THE MOST REALISTIC SALES POTENTIAL IN ANY

CASE.

6. US COMPETITIVENESS - AGAIN, THE INFORMATION CONTAINED IN THE MESSAGES CITED IN PARA 2 REMAINS ESSENTIALLY VALID. BRIEFLY, HOWEVER, THE FOLLOWING NOTES MIGHT BE ADDED:

(A) PRICES - US TEXTILE MACHINERY EQUIPMENT HAS BECOME PRICE COMPETITIVE IN MANY LINES OVER THE PAST TWO YEARS, OWING PRIMARILY TO YEN AND MARK REVALUATIONS. HOWEVER, IMPORTERS HAVE NOTED RECENT SHARP RISES IN THE PRICES OF US EQUIPMENT, AND IT IS NOT YET CLEAR WHETHER EUROPEAN PRICES ARE INCREASING AT THE SAME RATE.

(B) DELIVERY SCHEDULES - LONG DELIVERY PERIODS FOR US MACHINERY COMPARED TO EUROPEAN COMPETITION IS A UNANIMOUS COMPLAINT AMONG LOCAL TEXTILE FIRMS. IT SEEMS TO BE A PARTICULARLY HARMFUL FACTOR IN SPINNING MACHINERY IN WHICH US PRODUCERS APPEAR TO BE CONSIDERED PARTICULARLY COMPETITIVE IN BOTH PRICE AND TECHNOLOGY. ANOTHER IMPORTANT AREA IN WHICH THE LONG DELIVERY PERIODS OF US PRODUCERS RECEIVE SOME CRITICISM IS REPLACEMENT PARTS AND ACCESORIES. DELIVERY DELAYS IN THESE ITEMS IMPLIES IDLE OR UNDER-UTILIZED MACHINES OR EXCESSIVE INVENTORY INVESTMENTS.

(C) FINANCING - FINANCING ARRANGEMENTS ARE COMPLICATED BY A NEAR-UNIVERSAL FEAR AMONG COLOMBIAN TEXTILE FIRMS OF ALL SIZES TO CONTRACT DOLLAR INDEBTEDNESS. THUS, THEY LOOK FOR LOCAL FINANCING

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THROUGH ONE OF TWO BASIC COLOMBIAN GOVERNMENT-MANAGED FUNDS UNDER THE BANK OF THE REPUBLIC (BOR). THE BOR PAYS THE EXPORTER IN DOLLARS AND THE BORROWING COMPANY PAYS THE BOR IN PESOS. THIS PLACES EXPORTERS OF DIFFERENT COUNTRIES ON A RELATIVELY EVEN COMPETITIVE FOOTING, PARTICULARLY FOR MEDIUM AND SMALL TEXTILE COMPANIES WITH RELATIVELY MODEST INDIVIDUAL CAPITAL EQUIPMENT IMPORT NEEDS. HOWEVER, THE LARGE TEXTILE COMPANIES -- COLTEJER, FABRICATO AND TEJCONDOR -- HAVE LONG SINCE EXHAUSTED THE MAXIMUM SHARE OF SUCH FUNDS AVAILABLE TO INDIVIDUAL COMPANIES AND MUST SEEK OTHER FINANCING ARRANGEMENTS. IN THIS RESPECT, IMAGINATIVE AND FLEXIBLE FINANCING CREDIT ARRANGEMENTS BY EXPORTERS WILL BE AN IMPORTANT SALES FACTOR. ONE NEGATIVE PRACTICE IDENTIFIED BY SOME SOURCES IS THE FREQUENT US INSISTENCE ON EXPENSIVE BANK GUARANTEES FROM LARGE, WELL-KNOWN AND HIGHLY REPUTABLE COLOMBIAN FIRMS.

7. CONCLUSION - THE COLOMBIAN TEXTILE INDUSTRY IS LOOKING FORWARD TO THE TRADE MISSION, AND MISSION MEMBERS CAN EXPECT BUSY SCHEDULES. THE CONSULATE WILL BE PLEASED TO DISCUSS WITH MISSION MEMBERS THE PLANS AND OUTLOOK OF THE INDIVIDUAL COLOMBIAN FIRMS INTERVIEWED OVER THE PAST WEEKS.
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